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POWER
CORPORATION
OF CANADA,
LIMITED



ANNUAL
REPORT
1978

Power
Corporation
of Canada,
Limited
Annual Report 1978

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Financial Highlights

For the year ended December 31	1978	1977	1976
Gross revenue from operations.	\$300,276,000	\$270,805,000	\$244,668,000
Consolidated earnings before extraordinary items.	\$ 51,611,000	\$ 25,958,000	\$ 23,640,000
Extraordinary items.	\$ (9,085,000)	\$ (9,234,000)	\$ (9,611,000)
Consolidated net earnings.	\$ 42,526,000	\$ 16,724,000	\$ 14,029,000
Provision for depreciation.	\$ 12,914,000	\$ 11,776,000	\$ 12,005,000
Cash flow from operations.	\$ 38,754,000	\$ 36,266,000	\$ 31,702,000
Earnings per class PP and common share			
—before extraordinary items.	\$ 3.94	\$ 1.84	\$ 1.66
—after extraordinary items.	\$ 3.23	\$ 1.09	\$ 0.87

As at December 31

Working capital.	\$ 86,868,000	\$ 4,968,000	\$ 2,558,000
Investments.	\$426,214,000	\$368,446,000	\$383,445,000
Fixed assets—net.	\$132,404,000	\$143,176,000	\$130,037,000
Long-term debt.	\$232,896,000	\$101,325,000	\$109,806,000

Power Corporation of Canada, Limited

Directors' Report to Shareholders



Your Directors submit the Company's 54th Annual Report, together with the consolidated financial statements for the year ended December 31, 1978.

The consolidated earnings before extraordinary items for the year ended December 31, 1978 amount to \$51,611,000 as against \$25,958,000 for the prior year; after payment of non-participating preferred dividends, this is equal to \$3.94 per participating preferred and common share as against \$1.84 in 1977.

Extraordinary items amount to a charge of \$9,085,000 in respect of the year 1978, equivalent to 71 cents per share, compared with a charge of \$9,234,000, or 75 cents per share, in the previous year.

Dividends of 60 cents per share were paid on the participating preferred, class A and class B common shares during the year.

The operating results from transportation and ship-building operations managed by Canada Steamship Lines (1975) Limited (CSL) were higher than those obtained in 1977. Gross revenue from operations in 1978 was \$300,276,000 compared with \$270,805,000 in 1977. Earnings from operations before interest, depreciation and income taxes were \$29,506,000 compared with \$28,865,000 earned in 1977.

The share of earnings of The Investors Group included in the Company's earnings amounts to \$28,019,000 as against \$7,500,000 in 1977. This stems from improved results in operations of The Investors Group and its subsidiaries, The Great-West Life Assurance Company and Montreal Trust Company, from an increase from 42.1% to 96.2% during the year in the Company's share in the earnings of The Investors Group and from a change in the method of accounting for the earnings of The Great-West Life Assurance Company made in accordance with rules issued by the Federal Department of Insurance which resulted in an increase of 48 cents in your Company's earnings per share for 1978.

The share of earnings of Consolidated-Bathurst Inc. was \$21,617,000 compared with \$7,510,000 in 1977. This

increase was due primarily to continued strong demand for newsprint and the exchange benefit on the conversion rate of United States currency.

Other subsidiaries and affiliates accounted for a decrease of \$3,296,000 in earnings mainly as a result of the strike which closed down the operations of La Presse Ltée and Montréal Matin Inc. from October 1977 to April 1978.

During the year, your Company acquired 1,864,284 common and common class B shares, 5,129,089 common class A and common class C shares, and 1,256,610 preferred shares of The Investors Group, thereby increasing its voting control from 71.9% to 99.2%. In order to finance this acquisition the Company issued \$112.8 million of variable interest rate income debentures to be repaid by semi-annual instalments and maturing December 31, 1988.

On November 10, 1978, the Company sold its entire interest in Argus Corporation Limited for \$80.5 million of which \$65 million was paid in cash and \$15.5 million by way of a note due in annual instalments to 1982.

In November 1978, an agreement was announced by the board of directors of The Provincial Bank of Canada and Laurentide Financial Corporation Ltd. whereby both businesses would be merged. As a result, Laurentide shareholders would ultimately become shareholders of The Provincial Bank on the basis of 2 shares of the Bank for each 2 $\frac{1}{4}$ common shares of Laurentide. The first steps of this transaction have been completed and on February 12, 1979, a certificate of amalgamation was issued. Your Company now owns 1,739,585 preferred shares of Laurentide Financial Corporation Ltd. (the new company), a subsidiary of The Provincial Bank of Canada. The preferred shares of Laurentide Financial Corporation Ltd. will be exchanged in due course for common shares of The Provincial Bank of Canada.

A Special General Meeting of shareholders was held on December 12, 1978 to approve certain By-laws modifying the Company's share capital. The amendments were

necessary to permit the Company to capitalize an amount of \$8 per participating preferred and common share, including a portion of the 1971 capital surplus on hand. This procedure enabled participating preferred and common shareholders to elect to receive this capitalization of surplus as a taxable or non-taxable deemed dividend according to their individual income tax status.

On February 14, 1979, the Company authorized the calling for redemption on March 30, 1979 of the balance of the 5% cumulative redeemable second preferred shares Series A then outstanding, at the redemption price of \$12 plus 7¼ cents per share for accrued and unpaid dividends.

Your Directors have declared a dividend of 30 cents per participating preferred and common share for the quarter ending March 31, 1979 being an increase of 15 cents over the previous quarterly dividend rate. Your Directors have also passed a By-law providing for the subdivision of the participating preferred and common

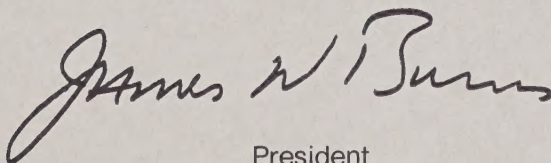
shares on a 2 for 1 basis; to become effective, this By-law requires the approval of shareholders at the Special General Meeting of May 4, 1979, immediately before the Annual General Meeting.

On June 26, 1978 Mr. Michel Bélanger submitted his resignation as a director of your Company because The Provincial Bank of Canada, of which he is President and Chief Executive Officer, was considering the making of the offer, as described above, to all the shareholders of Laurentide Financial Corporation Ltd.

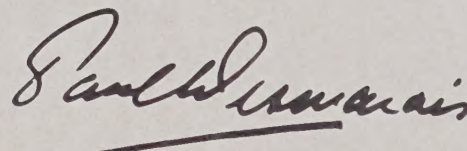
Effective February 1, 1979, Mr. James W. Burns was named President of your Company, succeeding Mr. Peter D. Curry who remains a director and was elected Deputy Chairman of the Board. Mr. Burns has been President and Chief Executive Officer of The Great-West Life Assurance Company since March 1971.

The directors wish to express their appreciation of the services rendered by the Officers and Staff during the year.

On behalf of the Board,



President



Chairman and Chief Executive Officer

Montreal, Quebec, March 14, 1979

Power Corporation of Canada, Limited
Consolidated Balance Sheet
As at December 31

ASSETS	1978	1977
CURRENT ASSETS		
Cash and short-term notes.	\$ 87,982,000	\$ 4,370,000
Accounts receivable.	41,169,000	34,841,000
Inventories (<i>note 2</i>).	14,074,000	6,880,000
Prepaid expenses.	1,720,000	2,198,000
	<u>144,945,000</u>	<u>48,289,000</u>
 INVESTMENTS		
Subsidiary and affiliated companies at equity (<i>notes 1 and 3</i>).	407,752,000	277,081,000
Other securities.	18,462,000	88,068,000
Advances to trustees of share purchase plans.		3,297,000
	<u>426,214,000</u>	<u>368,446,000</u>
 FIXED ASSETS—AT COST (<i>note 4</i>).	280,112,000	287,738,000
Less: accumulated depreciation.	147,708,000	144,562,000
	<u>132,404,000</u>	<u>143,176,000</u>
	<u><u>\$703,563,000</u></u>	<u><u>\$559,911,000</u></u>

Approved by the Board of Directors on March 14, 1979

PAUL DESMARAIS JAMES W. BURNS

LIABILITIES	1978	1977
CURRENT LIABILITIES		
Bank loan.	\$ 8,000,000	\$
Accounts payable and accrued charges.	36,052,000	32,446,000
Progress payments and billings in excess of costs incurred on uncompleted contracts.	50,000	1,112,000
Income taxes payable.	931,000	683,000
Current portion of long-term debt.	13,044,000	9,080,000
	<u>58,077,000</u>	<u>43,321,000</u>
 LONG-TERM DEBT (<i>note 5</i>).	 232,896,000	 101,325,000
 DEFERRED INCOME TAXES.	 44,378,000	 40,684,000
 PROVISIONS		
Insurance losses, repairs and claims.	4,144,000	5,244,000
Deferred compensation.	629,000	742,000
Deferred income.	1,330,000	1,637,000
	<u>6,103,000</u>	<u>7,623,000</u>
 SHAREHOLDERS' EQUITY		
Capital stock—non participating preferred (<i>note 6</i>).	21,720,000	67,975,000
—participating preferred (<i>note 6</i>).	18,074,000	6,950,000
—common (<i>note 6</i>).	159,865,000	63,058,000
Retained earnings.	162,450,000	228,975,000
	<u>362,109,000</u>	<u>366,958,000</u>
	<u>\$703,563,000</u>	<u>\$559,911,000</u>

Power Corporation of Canada, Limited
Statement of Consolidated Earnings
For the year ended December 31

	1978	1977
Gross revenue from operations (note 4)	<u>\$300,276,000</u>	<u>\$270,805,000</u>
Earnings from operations	\$ 29,506,000	\$ 28,865,000
Share of earnings of subsidiary and affiliated companies (note 3)	48,995,000	17,665,000
Income from investments	6,387,000	4,596,000
	<u>84,888,000</u>	<u>51,126,000</u>
Interest on long-term debt	15,327,000	8,895,000
Provision for depreciation	12,914,000	11,776,000
Provision for income taxes	5,036,000	4,497,000
	<u>33,277,000</u>	<u>25,168,000</u>
Earnings before extraordinary items	51,611,000	25,958,000
Extraordinary items (note 7)	(9,085,000)	(9,234,000)
Net earnings	<u>\$ 42,526,000</u>	<u>\$ 16,724,000</u>
Earnings per class PP and common share		
—before extraordinary items	\$ 3.94	\$ 1.84
—after extraordinary items	\$ 3.23	\$ 1.09

Statement of Consolidated Retained Earnings
For the year ended December 31

	1978	1977
Retained earnings beginning of year	\$228,975,000	\$222,502,000
Adjustment resulting from change to new basis of accounting by The Great-West Life Assurance Company (note 3)	5,424,000	
	<u>234,399,000</u>	<u>222,502,000</u>
Add:		
Net earnings	42,526,000	16,724,000
Gain on preferred shares purchased for cancellation	452,000	477,000
	<u>277,377,000</u>	<u>239,703,000</u>
Deduct:		
Dividends		
Preferred shares 1965 series	1,068,000	1,108,000
Preferred shares series A	299,000	2,296,000
Participating preferred shares	834,000	834,000
Common shares	6,753,000	6,482,000
Share of net charges to retained earnings of subsidiary and affiliated companies (note 3)	3,901,000	8,000
Transfer to capital stock (note 6)	102,072,000	
	<u>114,927,000</u>	<u>10,728,000</u>
Retained earnings end of year	<u>\$162,450,000</u>	<u>\$228,975,000</u>

Statement of Changes in Consolidated Financial Position

For the year ended December 31

	1978	1977
SOURCE OF FUNDS		
From operations		
Earnings before extraordinary items.	\$ 51,611,000	\$ 25,958,000
Non cash charges (credits)		
Provision for depreciation.	12,914,000	11,776,000
Deferred income taxes.	3,889,000	3,174,000
Earnings not received in cash.	(29,660,000)	(4,642,000)
	<u>38,754,000</u>	<u>36,266,000</u>
Disposal of fixed assets.	4,016,000	3,595,000
Disposal of investments.	75,195,000	21,286,000
Decrease in advances to trustees of share purchase plans.	3,297,000	240,000
Issue of long-term debt.	162,800,000	5,000,000
	<u>284,062,000</u>	<u>66,387,000</u>
USE OF FUNDS		
Additions to fixed assets.	4,295,000	28,813,000
Purchase of investments.	115,089,000	9,401,000
Reduction of long-term debt.	31,229,000	13,481,000
Redemption of preferred shares series A.	39,001,000	
Acquisition of 4¾% preferred shares for cancellation.	944,000	800,000
Dividends—preferred shares 1965 series.	1,068,000	1,108,000
—preferred shares series A.	299,000	2,296,000
—participating preferred shares.	834,000	834,000
—common shares.	6,753,000	6,482,000
Miscellaneous.	2,650,000	762,000
	<u>202,162,000</u>	<u>63,977,000</u>
INCREASE IN WORKING CAPITAL.	<u>\$ 81,900,000</u>	<u>\$ 2,410,000</u>

Power Corporation of Canada, Limited
Notes to Consolidated Financial Statements
December 31, 1978

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation and Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company transactions are eliminated. The 1977 figures have been reclassified where necessary to conform with the presentation adopted in 1978.

Investments in other subsidiary and affiliated companies are accounted for on the equity basis. A full consolidation of the financial statements of Power Corporation and its subsidiary companies has not been prepared as such statements would not present fairly the financial position of the Company. Financial statements of the major non-consolidated subsidiary and affiliated companies are presented on pages 15 to 37 of this Report.

The difference between the cost of the investment in companies accounted for on the equity basis and the book value of the underlying net assets at the dates of acquisition is included in the carrying value of these investments.

Inventory Valuation

Shipyard contracts are accounted for on the "completed contract" basis whereby gross revenue and earnings are recognized when the contracts are completed. During the construction period, shipyard work-in-progress is accounted for at cost less allowance for losses on uncompleted contracts.

Inventories of stores and supplies are carried at the lower of cost and replacement cost.

Investments

Investments in other securities are stated at cost less write downs.

Fixed Assets and Depreciation

Fixed assets are stated at cost. The cost and related accumulated depreciation of items retired or disposed of are removed from the books and any gains or losses are included in the statement of consolidated earnings.

Vessels are depreciated on a straight-line basis on estimated useful lives of from 20 to 25 years. Land transportation revenue equipment is depreciated on estimated useful life of from 5 to 10 years. The majority of the remaining assets are depreciated at the maximum rates permitted for income tax purposes.

Maintenance and Repairs

Maintenance and repairs are charged to expenses as incurred. Expenditures which result in a material enhancement of the value of the assets involved are treated as additions to fixed assets.

Income Taxes

The Company follows the tax allocation basis in accounting for income taxes. Deferred income taxes shown on the financial statements represent taxes deferred mainly in respect of capital cost allowance claimed in excess of depreciation charged in the accounts.

Pensions

The Company and its wholly-owned subsidiaries have pension plans for employees, which are being funded, and the current service cost portion is charged to earnings as incurred.

Note 2. Inventories

	<i>Thousands</i>	
	1978	1977
Shipyard work-in progress.	\$12,681	\$13,507
Progress payments and billings on uncompleted shipyard work. \$ 3,343		\$13,926
Less: Progress payments and billings in excess of costs incurred on uncompleted contracts included in current liabilities. 50	3,293	1,112
	<u>9,388</u>	<u>693</u>
Inventories of stores and supplies.	4,686	6,187
	<u>\$14,074</u>	<u>\$ 6,880</u>

Note 3. Subsidiary and Affiliated Companies at Equity

	Subsidiaries			Affiliates		Total
	Laurentide Financial Corporation Ltd.	The Investors Group	Other	Consolidated-Bathurst Inc.	Gesca Ltée	
Voting shares.....	57.9%	99.2%	n/a	37.1%	n/a	n/a
Equity interest.....	57.9%	96.2%	n/a	37.1%	100%	n/a
<i>Thousands</i>						
Carrying value:						
December 31, 1977.....	\$35,191	\$ 75,568	\$ 2,849	\$131,446	\$32,027	\$277,081
Adjustment resulting from change to new basis of accounting.....		5,424 ^(b)				5,424
Additional investments.....		114,313	284			114,597
Share of earnings.....	2,727	28,019 ^{(c)(d)}	(28)	21,617	(3,340)	48,995
Share of extraordinary items	(191)	(775) ^(d)	(7)	582	(2,673)	(3,064)
Share of credits (charges) to retained earnings.....	110	(4,051)			40	(3,901)
Sale and reduction of advance. . .			(1,307)		(2,338)	(3,645)
Write down of investment.	(8,400)					(8,400)
Dividends received.....	(1,195)	(5,242)		(6,236)	(6,662)	(19,335)
December 31, 1978.....	<u>\$28,242^(a)</u>	<u>\$213,256^(e)</u>	<u>\$ 1,791</u>	<u>\$147,409^(f)</u>	<u>\$17,054^(g)</u>	<u>\$407,752</u>
Share of equity						
December 31, 1978.....	<u>\$30,992</u>	<u>\$199,400^(e)</u>	<u>\$ 1,640</u>	<u>\$107,157^(f)</u>	<u>\$ 9,270^(g)</u>	<u>\$348,459</u>

(a) Represents value assigned to preferred shares received February 12, 1979 on the amalgamation of Laurentide Financial Corporation Ltd. with a subsidiary of The Provincial Bank of Canada.

(b) Represents the Company's share of the adjustment applicable to prior years resulting from the change to new basis of accounting by The Great-West Life Assurance Company, a subsidiary of The Investors Group. (Reference is made to Note 1 to Financial Statements of The Great-West Life Assurance Company on page 31 for a description of the changes made).

(c) Includes \$18,823,000 share of earnings, before deduction of carrying charges, derived from The Great-West Life Assurance Company, a subsidiary of The Investors Group, whose financial statements have been prepared on the basis of requirements of the Department of Insurance of Canada. (Reference is made to Note 2 to Financial Statements of The Great-West Life Assurance Company on page 32 for a description of significant accounting practices).

(d) Includes \$6,090,000 share of earnings and \$1,779,000 share of extraordinary items attributable to the change in the basis of accounting by The Great-West Life Assurance Company, a subsidiary of The Investors Group.

(e) Includes 1,256,610 5% cumulative redeemable convertible preferred shares, 1969 Series.

(f) Includes debentures of \$990,000.

(g) Includes advances of \$3,077,000.

Note 4. Fixed Assets and Gross Revenue

Major classifications by industry of fixed assets and gross revenue are as follows:

	<i>Thousands</i>				
	Fixed Assets			Gross Revenue	
	Cost	Net Book Value			
	1978	1978	1977	1978	1977
Water Transportation.....	\$200,846	\$ 94,532	\$103,138	\$107,125	\$ 91,239
Shipbuilding.....	12,737	3,618	3,723	41,563	30,365
Land Transportation.....	57,620	31,834	32,820	148,036	136,178
Other.....	8,909	2,420	3,495	3,552	13,023
	<u>\$280,112</u>	<u>\$132,404</u>	<u>\$143,176</u>	<u>\$300,276</u>	<u>\$270,805</u>

Power Corporation of Canada, Limited
Notes to Consolidated Financial Statements
December 31, 1978

Note 5. Long-Term Debt

	Thousands	
	1978	1977
Term bank loan bearing interest at the prime rate plus $\frac{3}{4}\%$	\$	\$ 5,000
Term bank loans maturing December 31, 1979 to December 31, 1982 bearing interest at the prime rate plus 1% and secured by certain investments.....	20,000	25,000
Income debentures maturing June 30, 1980 to December 31, 1987 bearing interest at half prime rate plus $1\frac{1}{8}\%$ to December 31, 1982 and from January 1, 1983 until maturity at half prime rate plus $1\frac{1}{2}\%$ and secured by ship mortgages.....	50,000	
Income debentures maturing June 30, 1979 to December 31, 1988 bearing interest at half prime rate plus $1\frac{1}{8}\%$ to December 31, 1982 and $1\frac{1}{2}\%$ from January 1, 1983 to December 31, 1988 and secured by certain investments.....	110,100	
Income debentures bearing interest at the prime rate plus $2\frac{1}{4}\%$ divided by two.....		12,500
Income debentures maturing June 30, 1985 bearing interest at half prime rate plus $1\frac{1}{2}\%$ to March 31, 1980, $1\frac{3}{4}\%$ from April 1, 1980 to March 31, 1982 and 2% from April 1, 1982 to June 30, 1985 and secured by certain investments.....	52,500	52,500
Other at various rates from $6\frac{1}{2}\%$ to $11\frac{1}{8}\%$ maturing April 1, 1979 to June 1, 1991.....	13,340	15,405
	<u>245,940</u>	<u>110,405</u>
Deduct: Instalments due within one year.....	<u>13,044</u>	<u>9,080</u>
	<u>\$232,896</u>	<u>\$101,325</u>
Instalments due on long-term debt over the next five years are as follows: 1980—\$20,915,000; 1981—\$20,841,000; 1982—\$20,709,000; 1983—\$19,318,000; 1984—\$19,328,000.		

Note 6. Capital Stock

	Thousands	
	1978	1977
Non participating preferred shares		
First preferred shares of \$50 par value issuable in series (i)		
Authorized—1,829,818 shares		
Issued — 429,818 shares $4\frac{3}{4}\%$ cumulative redeemable 1965 series.....	\$ 21,491	\$ 22,887
Second preferred shares of \$12 par value issuable in series (ii)		
Authorized—6,749,915 shares (iii)		
Issued — 19,120 shares 5% cumulative redeemable series A.....	229	45,088
	<u>\$ 21,720</u>	<u>\$ 67,975</u>
Participating preferred shares		
Class PP shares of \$13 par value (iii)		
Authorized—1,592,760 shares		
Issued — 1,390,337 shares (iv).....	\$ 18,074	\$ 6,950
Common shares without nominal or par value (iii)		
Authorized—59,476,220 shares		
Issued — 11,368,628 shares.....	<u>\$159,865</u>	<u>\$ 63,058</u>

(i) redeemable at \$50.50 plus accrued and unpaid dividends. During the year 27,933 shares were redeemed and cancelled. The Company, through a sinking fund, is committed to retire 26,500 such shares in each twelve-month period from May 1 to April 30.

(ii) On March 30, 1978, 3,250,085 shares were redeemed. During the year 488,124 shares were converted into class A common shares.

On February 14, 1979 the Company authorized the calling for redemption of the remaining 19,120 shares on March 30, 1979 at the redemption price of \$12.00 plus $7\frac{1}{4}$ cents per share for accrued and unpaid dividends for the period from February 15, 1979 to the date of redemption.

(iii) On December 12, 1978 the Company obtained supplementary letters patent:

- reducing the capital stock of the Company by an amount representing the redemption price of 3,250,085 second preferred shares of \$12 par value each and cancelling such shares;
- which, effective December 23, 1978, confirmed the transfer of an amount of \$102,072,000 (the capitalized surplus) from retained earnings to the then issued equity share capital of the Company, representing an amount of \$8.00 per participating preferred, class A common and class B common share;
- which, effective December 23, 1978, reclassified the 6% non-cumulative participating preferred shares of \$5 par value as "class PP shares of \$13 par value" with the same rights and privileges as the former shares;
- which, effective December 23, 1978, declared that the class A and class B common shares were replaced by one class of shares designated as "common shares without nominal or par value", and increased the number of authorized shares from 30,000,000 to 59,476,220.

(iv) 433 shares were issued for cash upon the exercise of warrants which expired on May 31, 1978.

Note 7. Extraordinary Items

	Thousands	
	1978	1977
Write down of investments.	\$ (8,400)	\$ (7,000)
Gain (Loss) on capital asset transactions, net of income taxes.	2,379	(1,707)
Company's share of extraordinary items of unconsolidated subsidiary and affiliated companies.	(3,064)	(527)
	<u>\$ (9,085)</u>	<u>\$ (9,234)</u>

Note 8. Commitments

The Company and its wholly-owned subsidiary companies charter vessels, and lease terminals, trucks and buses under long-term agreements with non-consolidated subsidiary and other companies. Aggregate minimum rentals under these charter hire agreements and leases totalling \$75,608,000 are as follows for each of the periods shown: 1979—\$10,404,000; 1980-1984—\$45,214,000; 1985-1989—\$15,873,000; 1990-1994—\$3,125,000; After 1994—\$992,000.

Note 9. Anti-Inflation Legislation

The Company and its subsidiary and affiliated companies were subject to the Federal Anti-Inflation legislation relative to prices, profits, compensation and dividends. In the opinion of management the companies have operated in compliance with the legislation and supporting regulations.

Note 10. Remuneration of Directors and Officers

The remuneration received by Directors and Officers during the year ended December 31, 1978 was as follows:

from:	as Directors		as Officers	
	Number	Amount	Number	Amount
Power Corporation of Canada, Limited.	23*	\$140,400	9	\$829,800
from subsidiaries:				
The Investors Group.	6	24,100	2	140,000
Investors Group Trust Co. Ltd.	1	600		
The Great-West Life Assurance Company.	5	25,100	2	144,300
Montreal Trust Company.	4	19,400	1	100,000

*Includes 4 Officers

Auditors' Report

The Shareholders,
Power Corporation of Canada, Limited

We have examined the consolidated balance sheet of Power Corporation of Canada, Limited as at December 31, 1978 and the consolidated statements of earnings, retained earnings, and of changes in financial position for the year then ended. For Power Corporation of Canada, Limited and those companies of which we are the auditors and which are consolidated or are accounted for by the equity method in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For the companies accounted for by the equity method, of which we are not the auditors, we have carried out such inquiries and examinations as we considered necessary in order to accept the reports of the other auditors.

In our opinion these financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in the basis of determining the earnings of The Great-West Life Assurance Company as referred to in note 3 to consolidated financial statements, on a basis consistent with that of the preceding year.

Montreal, Quebec, March 14, 1979.

TOUCHE ROSS & CO.
Chartered Accountants

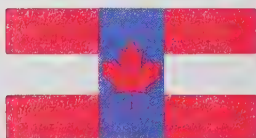
Canada Steamship Lines*(1975) Limited



Canada Steamship Lines (1975) Limited manages Power Corporation's assets in the transportation and related fields.

Gross revenue from operations for 1978 amounted to \$300,276,000, 11% higher than 1977. Earnings from operations before interest, depreciation and income taxes increased to \$29,506,000 compared to \$28,865,000 in 1977.

Earnings for the year were higher than in 1977 as a result of improvements in shipping, trucking, and the shipbuilding and ship repairing affiliates. The company experienced, however, a deterioration in earnings in bus operations.



Water Transportation

The Company's fleet consists of thirty-three ships, comprising twelve self-unloaders, twelve bulk carriers, two self-unloading cement carriers and seven package freighters, which make it the largest and most flexible Canadian fleet operating on inland waters. Two of the bulk carriers and two of the package freighters have ocean going capabilities.

The package freight division operates to and from the ports of Valleyfield, Hamilton, Windsor, Sarnia and Thunder Bay.

Quebec Tugs Limited operates four tugs out of Quebec City and provides towing services within the Port of Quebec and surrounding areas.

Steamships Forwarding Company, a wholly-owned subsidiary, operates a national rail freight forwarding business.

During 1978, CSL operated on behalf of a consortium, in which the company is a participant, the *M.V. Arctic*, a specially designed vessel for use in the Canadian Arctic.

Gross revenue from Water Transportation increased

17% from \$91.2 million in 1977 to \$107.1 million in 1978.

The two new vessels delivered at the end of 1977 successfully completed their first full season of operation. The bow on one of these new ships was especially designed for late season navigation and proved so effective in ice that a similar but even more advanced bow was fitted to the other new ship. This extremely successful innovation may well be added to other vessels in the fleet.

The *M.V. Ferbec*, a 56,000 deadweight ton ocean going bulk carrier was operated to the eastern United States and South America after its inland water commitment had been fulfilled in late 1978.

The company has placed an order with its Collingwood Shipyard to build an ice strengthened 730-foot self-unloader capable of access to Canadian east coast ports. The vessel, to be delivered in 1980, will be used initially in the Nova Scotia coal trade.

The company continues to be a member of a consortium examining the feasibility of building and operating vessels for shipping liquified natural gas from Melville Island in the high Canadian Arctic. The overall project was submitted in January 1979 to the National Energy Board for its consideration.



Shipbuilding

Canadian Shipbuilding & Engineering Limited, a subsidiary, has shipyards located at Collingwood and Thunder Bay, Ontario. Both yards have up-to-date repair facilities and are also involved in the construction of light- and heavy-engineered products. Collingwood, in particular, has one of the most efficient shipbuilding operations in Canada with sophisticated computer systems for work planning and scheduling.

Gross revenue in 1978 was \$41.6 million compared to \$30.4 million in 1977. The latter figure excludes a vessel delivered to the Water Transportation Division. In 1978 one maximum seaway-size self-unloader was delivered to an outside customer and, despite a seven-week strike at the Thunder Bay Shipyard, volume of ship repair work was heavy.

Orders on hand should permit the continuation of shipbuilding work well into 1980.

Land Transportation



The Kingsway Transports' group consists of Kingsway itself, a major inter-city general commodity common carrier, as well as Kourier—the small parcel express division, Servall Transport Limited—a specialized truck load carrier, and Brocklesby Transport Limited—a trans-Canada heavy hauling operator. Kingsway also provides other services such as warehousing, fleet maintenance, distribution of truck parts and accessories (under the name of Bennett & Elliott Co. Limited) and contract transportation.

Operations extend across Canada from Quebec to British Columbia and additionally to certain areas in the United States. Operating assets include 2,200 revenue equipment units, forty-two terminals located across the country and three terminals in the United States.

Gross revenue increased from \$72.5 million in 1977 to \$81.4 million in 1978 while tonnage carried increased 6%. Volume was particularly strong in the last half of the year.

New terminals located at Edmonton and Winnipeg became fully operational in 1978 and construction of a new terminal at Saskatoon was commenced.

During the year, arrangements were completed to acquire additional operating rights in the north-eastern United States to complement existing operations.

Kourier, Servall and Brocklesby experienced substantial revenue growth during 1978 and operations of all three units will be extended into western Canada in 1979.

Voyageur



The Voyageur bus operations, servicing primarily Ontario and Quebec, comprise the largest inter-urban bus system in eastern Canada. The companies in this group offer regular inter-city passenger service in modern, air-conditioned buses operating out of convenient downtown terminals. Voyageur operates approximately four hundred buses and has terminals or agents in almost every major city and town within its operating territory.

In addition, Voyageur also provides charter and tour services to many destinations in both Canada and the United States.

Under the name "Parbus", Voyageur offers a highly efficient bus parcel express service for packages up to eighty pounds.

In 1978 Voyageur's revenue recorded an increase of \$2.9 million to \$66.6 million. Earnings however were adversely affected by labour disputes during the year, including a strike by one of the Quebec bargaining units which has continued into March 1979.

The greatest threat to the company's future continues to be the heavily subsidized tariff policies of Via Rail, a crown corporation created to operate inter-city rail passenger service.

Rate setting by Via, which is not determined by the usual economic considerations, is severely detrimental to the privately owned inter-city bus industry which is totally unsubsidized. Moreover, the crown corporation is concentrating its efforts on the Quebec-Windsor corridor, the short haul area encompassing Montreal, Ottawa, Kingston, Toronto and London, the same territory that provides the inter-city bus industry with the greater portion of its volume and permits it to serve a multitude of smaller centres for whom the bus is the prime if not the only mode of common carriage.

Other

Transportation related and other miscellaneous operations had gross revenue of \$3.5 million in 1978. These operations include grain elevators at both Kingston and Midland, Ontario, Montreal Ship Chandlers, T.M.S. Management Services Ltd., and InterCan Logistical Services Limited. During the year the quarry operations at Port Colborne were sold.



**Condensed Report of
the Directors to Shareholders**

Operating Results

Consolidated Net Operating Income for 1978 was \$35,665,000 compared with \$21,496,000 for 1977. Final earnings after extraordinary items were \$2.52 per share in 1978 compared with \$1.52 per share in 1977.

During the third quarter of 1978 the Company increased its ownership in The Great-West Life Assurance Company to 95.7% through the acquisition of a further 911,370 shares at a price of \$100 (Canadian funds) per share. The long term financing of this acquisition was completed in October by a \$40,000,000 public issue of twenty year 9% debentures and a private placement of \$60,000,000 cumulative redeemable preference shares.

Before deducting the after-tax cost of bank loan and debenture interest, earnings of the Company excluding Great-West Life and Montreal Trust Company increased to \$10,890,000 in 1978 compared with \$8,786,000 in 1977. Consolidated income from investment certificates and service fees was \$9,323,000, an increase of \$2,199,000 over 1977 while income from management, distribution and trust services declined by \$95,000 to \$1,567,000.

The Company's share of the earnings of The Great-West Life Assurance Company was \$22,228,000 compared with \$10,014,000 in 1977, an increase of \$12,214,000. Of this increase, \$7,322,000 is attributable to a change in the basis of accounting for Canadian life insurance companies. Reference is made to Note 1 to financial statements of The Great-West Life Assurance Company on page 31 for a description of the changes made. The balance of the increase reflects the higher earnings attributable to the increased share ownership and improvement in the operating results of Great-West Life.

The Company's share of earnings of Montreal Trust Company increased to \$3,548,000 from \$2,881,000 recorded in 1977.

Dividends

During the year, quarterly dividends of 12½ cents per share were paid on the common convertible and Class A convertible shares and quarterly "tax-deferred" dividends of 12½ cents per share were paid on the Class B and Class C convertible shares. The regular quarterly dividends of 31¼ cents per share were paid on the Preferred Shares, 1969 Series and the initial dividend of 23.835 cents per share on the Preferred Shares, 1978 Series was paid on December 1, 1978.

At a meeting of the directors held February 9, 1979 dividends of 15 cents per share on all classes of common shares and the regular quarterly dividend of 31¼ cents on the Preferred Shares, 1969 Series were declared payable on May 1, 1979 to shareholders of record April 12, 1979. The regular quarterly dividend of 37½ cents per share on the Preferred Shares, 1978 Series was declared payable March 1, 1979 to shareholders of record February 12, 1979.

Consolidated Statement of Income

For the year ended December 31

	1978	1977
INCOME		
Investment income.	\$ 57,905,549	\$ 51,231,297
Service fees.	2,234,904	2,325,074
Management and distribution fees.	13,458,027	12,544,633
Trust services.	1,821,308	1,508,509
Share of earnings of unconsolidated subsidiaries		
The Great-West Life Assurance Company (<i>note 3</i>).	22,227,674	10,013,518
Montreal Trust Company (<i>note 4</i>).	3,548,483	2,881,229
	<u>101,195,945</u>	<u>80,504,260</u>
EXPENSES		
Interest on certificate liabilities.	23,105,943	20,429,632
Additional credits to certificates.	13,864,262	11,610,733
Certificate and service fee costs.	11,923,522	11,169,668
Management and distribution operating costs.	11,179,370	9,800,976
Trust services operating costs.	1,085,321	995,030
Interest on bank loans and debentures.	2,025,874	378,397
Provision for income taxes	2,346,926	4,624,207
	<u>65,531,218</u>	<u>59,008,643</u>
Net operating income.	35,664,727	21,495,617
Extraordinary items (<i>notes 3 and 9</i>).	(609,429)	(218,854)
Net income.	<u>\$ 35,055,298</u>	<u>\$ 21,276,763</u>
Earnings per share after deducting dividends on preferred stock (<i>notes 3 and 10</i>)		
—Net operating income.	\$ 2.57	\$ 1.54
—Net income.	\$ 2.52	\$ 1.52

The Investors Group
Consolidated Balance Sheet
As at December 31

ASSETS	1978	1977
CASH AND INVESTMENTS		
Cash and temporary investments.....	\$ 20,472,423	\$ 20,383,728
Marketable securities—at cost and accrued income, market value \$227,842,130 (1977—\$162,307,489) (note 2).....	226,461,642	169,622,541
First mortgages on real estate—at cost and accrued interest receivable.....	446,229,594	407,884,530
Real estate—at cost less accumulated depreciation \$1,002,061 (1977—\$893,947).....	6,448,178	2,208,122
Loans to certificate holders—not exceeding cash surrender values.....	22,582,979	19,139,730
	<u>722,194,816</u>	<u>619,238,651</u>
INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES		
The Great-West Life Assurance Company (note 3).....	216,961,490	93,531,074
Montreal Trust Company (note 4).....	35,011,989	32,739,860
OFFICE PREMISES—at cost less accumulated depreciation \$4,472,170 (1977—\$4,153,388).....	4,348,987	4,366,433
ACCOUNTS AND NOTES RECEIVABLE.....	1,630,486	1,695,325
INCOME TAXES RECOVERABLE.....	2,655,992	
ADVANCE TO TRUSTEE UNDER EMPLOYEE STOCK PURCHASE PLAN.....		1,154,991
OTHER ASSETS.....	7,225,964	5,976,151
EXCESS OF COST OF SHARES OF CONSOLIDATED SUBSIDIARIES OVER BOOK VALUE OF NET ASSETS AT DATE OF ACQUISITION.....	734,084	734,084
	<u><u>\$990,763,808</u></u>	<u><u>\$759,436,569</u></u>

LIABILITIES AND SHAREHOLDERS' EQUITY	1978	1977
CERTIFICATE AND CURRENT LIABILITIES		
Certificate liabilities (<i>note 5</i>)	\$641,584,427	\$551,982,250
Bank loan.	217,000	2,000,000
Tax deposits on mortgages.	13,678,400	12,364,392
Income taxes payable.		922,402
Dividends payable.	2,021,509	2,044,098
Other liabilities.	15,332,587	10,949,782
	<u>672,833,923</u>	<u>580,262,924</u>
INCOME DEFERRED TO FUTURE YEARS.	907,233	900,559
DEFERRED INCOME TAXES.	9,690,126	9,141,787
9 $\frac{7}{8}$ % DEBENTURES, 1978 SERIES (<i>note 6</i>)	40,000,000	
SHAREHOLDERS' EQUITY		
Capital stock (<i>note 7</i>)—Preferred.	92,406,500	32,444,000
—Common.	8,209,698	8,155,946
	<u>100,616,198</u>	<u>40,599,946</u>
Contributed surplus arising from premium on capital stock (<i>note 8</i>).	46,777,238	42,620,889
Retained earnings.	119,939,090	85,910,464
	<u>267,332,526</u>	<u>169,131,299</u>
	<u>\$990,763,808</u>	<u>\$759,436,569</u>

Approved by the Board

PETER D. CURRY, Director ROBERT H. JONES, Director

The Investors Group
Consolidated Statement of Retained Earnings
For the year ended December 31

	1978	1977
Balance at beginning of the year.	\$ 85,910,464	\$ 74,839,645
Adjustment resulting from change to new basis of accounting by The Great-West Life Assurance Company (<i>note 3</i>).	12,602,709	
As adjusted.	98,513,173	74,839,645
Add (Deduct):		
Net income for the year.	35,055,298	21,276,763
Company's share of credits and charges recorded in retained earnings by The Great-West Life Assurance Company.	(5,052,695)	(2,283,557)
Dividends—Preferred shares.	(2,192,409)	(1,622,200)
—Common shares.	(6,384,277)	(6,300,187)
Balance at end of the year.	<u>\$119,939,090</u>	<u>\$ 85,910,464</u>

Consolidated Statement of Changes in Financial Position
For the year ended December 31

	1978	1977
SOURCE OF FUNDS		
From Operations		
Net operating income.	\$ 35,664,727	\$ 21,495,617
Less share of earnings retained by unconsolidated subsidiaries.	20,350,688	8,647,480
	15,314,039	12,848,137
Add (deduct) net non-cash charges (credits) to operations including deferred income taxes of \$548,339 (1977—\$369,109).	1,638,281	(803,620)
Total funds from operations.	16,952,320	12,044,517
Interest and additional credits to certificates.	36,970,205	32,040,363
Certificate sales and collections.	138,475,081	92,207,349
Proceeds from securities transactions.	32,225,142	38,660,406
Mortgage principal collections and sales.	28,642,071	32,880,926
Net proceeds from issue of debentures and preferred shares.	99,193,773	
Receipt of advance to trustee under employee stock purchase plan.	1,154,991	
Miscellaneous.	37,497	345,366
	<u>353,651,080</u>	<u>208,178,927</u>
USE OF FUNDS		
Certificate maturities and surrenders.	87,743,429	69,704,229
Investments in marketable securities.	92,378,606	84,499,675
Investments in first mortgages.	66,824,579	57,916,000
Increase in investment in The Great-West Life Assurance Company.	91,481,462	
Net additions to real estate and fixed assets.	4,752,034	313,658
Decrease in bank loans.	1,783,000	2,000,000
Dividends paid.	8,599,275	7,899,952
	<u>353,562,385</u>	<u>222,333,514</u>
INCREASE (DECREASE) IN CASH AND TEMPORARY INVESTMENTS.	<u>\$ 88,695</u>	<u>\$ (14,154,587)</u>

Notes to Consolidated Financial Statements

December 31, 1978

Note 1. Statement of Accounting Policies

A description of those accounting policies which are considered important to an understanding of the accompanying financial statements is set out below.

Principles of Consolidation

The consolidated financial statements include the accounts of all subsidiary companies except The Great-West Life Assurance Company and Montreal Trust Company. The assets and liabilities of these two companies are not consolidated in the balance sheet as they operate within regulated industries and it is not considered appropriate to consolidate in the circumstances. Financial statements of The Great-West Life Assurance Company and condensed financial statements of Montreal Trust Company are presented on pages 27 to 35.

All inter-company accounts and transactions have been eliminated in consolidation. The equity method of accounting has been used for the two non-consolidated subsidiaries, with the necessary adjustments having been made to reflect the disposal during 1978 of the previous investment by The Great-West Life Assurance Company in 650,000 common convertible shares of this Company.

Marketable Securities

It is a statutory requirement of the investment contract industry to amortize any differences between the original cost of bonds and debentures and their par value over the period to maturity in such a manner as to equalize the yield to maturity. The bonds and debentures included in this category are carried at amortized cost and all other securities are carried at original cost.

Office Premises

The depreciable properties and related equipment and furnishings are depreciated on a straight-line basis over their estimated life. Furnishings, once they have been fully depreciated, are eliminated from the accounts.

Certificate Liabilities

Investment certificates entitle certificate holders to receive at maturity a definite sum of money. A portion of payments made by installment certificate holders is added to certificate liabilities and the balance to service fee income. The portion of the certificate payments added to certificate liabilities, when combined with the interest compounded at government approved rates, will accumulate to equal the specified maturity value at the maturity date. The aggregate accumulated certificate liabilities always exceed the aggregate cash surrender values of the outstanding investment certificates.

Service Fee Income and Selling Expenses

On installment investment certificates, service fees received during the first year may exceed or be less than the aggregate of commissions paid to sales representatives and selling costs incurred. To achieve a better matching of income and expense, the differential is amortized over the first 60 months that installment certificates are in force.

On single payment certificates, a portion of commissions paid to sales representatives is amortized over the first 60 months that they are in force with the balance and all other selling expenses being charged against income in the year of sale.

Additional Credits

In addition to the guaranteed maturity and cash surrender values, certificate holders are entitled to additional amounts on the attainment of each certificate anniversary, as declared by the Boards of Directors of the respective companies. These amounts are allocated to the certificates on their anniversary dates. Full provision has been made for all additional credits, both earned and accrued.

The Investors Group
Notes to Consolidated Financial Statements
December 31, 1978

Note 2. Marketable Securities

	1978		1977	
	Cost	Market	Cost	Market
Government of Canada bonds.	\$ 31,596,922	\$ 29,399,587	\$ 20,049,010	\$ 18,639,587
Canadian provincial and municipal bonds.	16,599,795	14,715,471	23,587,251	20,971,312
Canadian corporate bonds, debentures and obligations.	35,661,103	32,122,839	36,927,165	34,340,490
Aircraft certificates*.	5,421,318	5,421,318	5,707,819	5,707,819
Canadian preferred stocks.	102,000,430	103,871,415	59,924,000	58,199,929
Canadian common stocks.	31,784,993	38,914,418	20,447,904	21,468,960
	<u>223,064,561</u>	<u>224,445,048</u>	<u>166,643,149</u>	<u>159,328,097</u>
Accrued interest and dividends receivable.	3,397,081	3,397,082	2,979,392	2,979,392
	<u>\$226,461,642</u>	<u>\$227,842,130</u>	<u>\$169,622,541</u>	<u>\$162,307,489</u>

*Aircraft certificates represent part ownership of two aircraft leased to a major Canadian airline after deducting a liability for 11% serial debentures. The debentures amount to \$2,391,000, mature in 1991 and are secured by a mortgage on one aircraft and the related lease payments.

Note 3. The Great-West Life Assurance Company

Value of investment at beginning of the year net of investment of the subsidiary in 650,000 common convertible shares of the parent.	\$ 93,531,074
Add:	
Adjustment resulting from sale of its investment in the parent.	4,172,632
Share of net credit to retained earnings of subsidiary resulting from change in basis of accounting (see below).	12,602,709
	<u>110,306,415</u>
Add (Deduct):	
Cost of shares acquired during the year.	91,481,462
Share of 1978 net income from operations.	22,227,674
Share of 1978 extraordinary items.	2,123,496
Share of dividends paid by the Company on reciprocal investment.	81,413
Dividends received.	(4,206,275)
Share of net charges recorded in retained earnings of subsidiary.	(5,052,695)
Value of investment at end of the year.	<u>\$216,961,490</u>

During 1978 amendments to the Canadian and British Insurance Companies Act changed the basis of accounting of The Great-West Life Assurance Company. *Reference is made to Notes 1 and 2 to Financial Statements of The Great-West Life Assurance Company on pages 31 and 32 for a description of the changes made and of the significant accounting practices.* These changes have had the following effect on the financial statements of The Investors Group:

- Of the increase in the shareholders' equity of The Great-West Life Assurance Company as at December 31, 1977, \$39,541,859 is attributable to the 1,002,000 shares (50.1% interest) of that company that were owned by The Investors Group at December 31, 1977. Of this amount, \$26,939,150 has been calculated as having accumulated prior to the date of acquisition of the 50.1% interest. This amount reduces the excess of the cost of 1,002,000 shares over their book value at date of acquisition from \$27,589,000 to \$650,000 which is included in the carrying value of the investment. The remaining \$12,602,709 has resulted in an increase in the carrying value of the investment and a credit to retained earnings.
- Of the \$12,214,156 increase in the Company's share of the earnings of The Great-West Life Assurance Company, approximately \$7,322,000 of the increase (57c per share) is attributable to the change in the basis of accounting. In addition, \$2,123,496 of the extraordinary items (16c per share) is also attributable to the change in the basis of accounting.

The excess of the book value at the dates of acquisition of the 911,370 shares of the subsidiary acquired during 1978 over their cost was \$14,841,000; the cost of these shares is included in the carrying value.

Note 4. Montreal Trust Company

Value of investment at beginning of the year.....	\$ 32,739,860
Add:	
Share of 1978 net operating income.....	3,548,483
Share of 1978 extraordinary items.....	24,253
	<u>36,312,596</u>
Deduct:	
Dividends received.....	1,300,607
Value of investment at end of the year.....	<u>\$ 35,011,989</u>

The excess of the cost of the 1,300,607 shares held in this subsidiary over their book value at the date control was acquired was \$8,271,000 which is included in the carrying value of \$35,011,989.

Note 5. Certificate Liabilities

As security for investment certificates issued by subsidiaries, assets which qualify as investments under the Canadian and British Insurance Companies Act having a value in excess of net certificate liabilities must be lodged by each subsidiary with approved depositories. As at December 31, 1978 the aggregate excess was \$24,027,000.

Note 6. 9 $\frac{7}{8}$ % Debentures, 1978 Series

The Debentures are due October 4, 1998 with a sinking fund requirement of \$1,500,000 per annum to commence October 4, 1984. Under certain circumstances the Company will be required to purchase for cancellation up to \$800,000 of debentures per annum, commencing October 4, 1979 for four years.

Note 7. Capital Stock

Authorized

1,296,260—5% cumulative redeemable convertible preferred shares, 1969 Series—entitled to \$1.25 annual cumulative dividend; redeemable at \$25 per share; and convertible into 1 $\frac{2}{3}$ common Class A convertible shares up to April 30, 1979.

2,400,000—cumulative redeemable preferred shares, 1978 Series—entitled to an annual cumulative dividend of \$1.50 to September 1, 1985 and thereafter at a floating rate equal to $\frac{1}{2}$ of the prime rate plus 1 $\frac{1}{4}$ %; redeemable on and after September 1, 1983 at \$26 per share to August 31, 1988, decreasing to \$25 $\frac{1}{4}$ per share during the period to August 31, 1991 and at \$25 per share thereafter.

20,000,000—voting common convertible and common Class B convertible shares, in total, which are interconvertible.

20,606,843—non-voting common Class A convertible and common Class C convertible shares, in total, which are interconvertible.

All of the classes of common stock now have the same characteristics except for voting rights. Until December 31, 1978 the common Class B and Class C convertible shares were entitled to receive "tax-deferred" dividends. Dividends on all classes of common shares to be paid in 1979 and thereafter are taxable.

Under the provisions of the Manitoba Corporations Act, all of the shares of the Company are deemed to be without par value. During the year the Company's articles of incorporation were amended increasing the authorized number of preferred shares by 2,400,000 and increasing the maximum consideration for which all of the shares of the Company may be issued from \$82,000,000 to \$142,000,000.

Under the terms of the preferred shares, 1978 Series, all of which were issued during 1978, the Company is required to purchase 168,000 shares at \$25 per share on September 1 in each of the years 1984 to 1993 inclusive. The holders of the shares outstanding on September 1, 1993 have the right to have the Company redeem them on that date; otherwise 20% of the shares then outstanding will be purchased by the Company on September 1 in each of the years 1994 to 1998.

The Investors Group
Notes to Consolidated Financial Statements
December 31, 1978

Issued and Outstanding

	December 31, 1978		December 31, 1977	
	Shares	Amount	Shares	Amount
Preferred shares, 1969 Series.	1,296,260	\$32,406,500	1,297,760	\$32,444,000
Preferred shares, 1978 Series.	2,400,000	60,000,000		
	<u>3,696,260</u>	<u>\$92,406,500</u>	<u>1,297,760</u>	<u>\$32,444,000</u>
Common shares				
Common convertible.	6,842,005	\$ 342,100	6,631,530	\$ 331,576
Common Class B convertible.	100	5	210,575	10,529
Interest of unconsolidated subsidiary in common convertible shares.				(16,282)
Common Class A convertible.	6,085,843	304,287	5,751,024	287,551
Common Class C convertible.	3,455	178	335,776	16,789
Surplus arising from conversion of preferred shares.		7,563,128		7,525,783
	<u>12,931,403</u>	<u>\$ 8,209,698</u>	<u>12,928,905</u>	<u>\$ 8,155,946</u>

During the year 1,500 convertible preferred shares were converted into 2,498 common Class A convertible shares resulting in an increase of \$37,345 in surplus arising from conversion of such shares.

At December 31, 1977, 118,248 common Class A convertible shares were reserved for the Employee Stock Purchase Plan. No shares were allotted during 1978 and, as a result of a Plan amendment during 1978, no shares were reserved for the Plan at December 31, 1978.

Note 8. *Contributed Surplus*

The change during the year was as follows:

Balance beginning of the year.	\$42,620,889
Add: Elimination of interest of unconsolidated subsidiary in common convertible shares.	4,156,349
Balance end of the year.	<u>\$46,777,238</u>

Note 9. *Extraordinary Items*

Details of these amounts are as follows:

	1978	1977
Net loss on investments net of income taxes		
\$1,922,046 (1977—\$436,855).	\$ (1,950,951)	\$ (242,949)
Debentures and preferred stock issuance costs net of income taxes \$347,347. . .	(806,227)	
Share of extraordinary items		
The Great-West Life Assurance Company.	2,123,496	
Montreal Trust Company.	24,253	24,095
	<u>\$ (609,429)</u>	<u>\$ (218,854)</u>

Note 10. *Earnings Per Share*

	1978	1977
a. Basic		
Net operating income.	\$ 2.57	\$ 1.54
Net income.	\$ 2.52	\$ 1.52
Basic earnings per share have been determined after deducting \$2,498,163 (1977—\$1,622,200) attributable to preferred shares to December 31		
b. Fully diluted		
Net operating income.	\$ 2.31	\$ 1.42
Net income.	\$ 2.27	\$ 1.41

It has been assumed in calculating the fully diluted earnings per share that all the preferred shares, 1969 Series outstanding at December 31 of each year had been converted as of January 1 of each year.

Note 11. Other

- a. Investors Mortgage Fund, a mutual fund managed by a subsidiary, invests in first mortgages on improved real estate in Canada. It is anticipated that there will always be ample cash and marketable securities in the Fund available to meet future withdrawals. However, should the withdrawals exceed available cash and marketable securities, The Investors Group has guaranteed to find a purchaser for (or failing to do so, purchase itself) sufficient mortgages at prices not less than 95% of the then prevailing market value thereof, to realize sufficient monies to enable the Trustee to meet all such withdrawals.

As at December 31, 1978 total assets of Investors Mortgage Fund were \$319,078,000 comprising \$37,138,000 cash and other liquid assets and \$281,940,000 in mortgages.

- b. Included as charges against net income are the following:

	1978	1977
Depreciation and amortization.	\$529,423	\$426,484
Remuneration of directors and senior officers.	488,150	654,774

During 1977 the Board of Directors approved an executive incentive plan under which awards may become payable to a director, who is an officer of a wholly-owned subsidiary, at the close of the five year period ending December 31, 1981. Payments of awards and the amount thereof are contingent on the attainment by the Company of certain earnings levels during the five year period. A provision of \$39,600 has been made by a consolidated subsidiary in 1978 for this contingency which is not included in the above remuneration figures.

- c. Aggregate remuneration paid by the Company's unconsolidated subsidiaries to directors of the Company for service as directors or senior officers of the unconsolidated subsidiaries including the cost of pension benefits amounted to \$308,517 (1977—\$309,501).
- d. The Company was subject to the federal anti-inflation legislation relative to income, compensation and dividends to the end of 1978. In the opinion of management the Company operated in compliance with the legislation and supporting regulations.
- e. The foregoing consolidated financial statements and notes thereto were approved by the Board of Directors of the Company on February 9, 1979.
-

Auditors' Report

To the Shareholders of The Investors Group

We have examined the consolidated balance sheet of The Investors Group as at December 31, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. For The Investors Group and the consolidated subsidiary companies, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For the unconsolidated subsidiary companies referred to in Notes 3 and 4 of the financial statements and accounted for by the equity method, we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, which insofar as it relates to the amounts included for companies not examined by us is based solely on the reports of other auditors, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles (except that, insofar as the net income of The Great-West Life Assurance Company is concerned, the accounting practices employed are those prescribed or permitted by the Department of Insurance of Canada). Further in our opinion, except for the change in the basis of accounting used by The Great-West Life Assurance Company as referred to in Note 3 to the financial statements, such accounting principles are applied on a basis consistent with that of the preceding year.

DELOITTE, HASKINS & SELLS
Chartered Accountants

Winnipeg, Manitoba, February 9, 1979

The Great-West Life Assurance Company



Condensed Report of the Directors to Shareholders

Record sales and improved earnings for both policyholders and shareholders highlighted the year 1978. The net rate of return on investments continued its upward movement and results in the group health insurance line of business improved significantly. Mortality experience for individual policies was less favorable than the unusually favorable experience in 1977.

Canadian legislation making changes in the basis of accounting for life insurance companies operating in Canada became effective in 1978. The notes to the financial statements have been expanded to include an explanation of the changes which have been introduced. It should be noted that the Financial Statements for 1977 have been re-stated on the new basis for purpose of comparison.

Sales

In response to a continuing strong demand, total sales of life insurance and annuities increased by 35% over 1977 and recorded a new high for the Company. Measured by the amount of life insurance protection provided and the maturity value of annuity plans issued during the year, sales amounted to \$8,124,604,000. Of this total, 53% was recorded in the United States and 47% in Canada. Health insurance sales, in terms of gross annual premiums, increased 28% and totalled \$104,342,000, also a new high for the Company. United States results accounted for 63% of the total and Canadian results were 37%.

Individual Products

Sales of individual life insurance policies increased 38% to \$1,678,768,000. The average face amount of policies underwritten in 1978 was \$46,509, compared with \$35,318 the previous year. Canadian sales of \$1,162,221,000 were particularly strong and represented an increase of 50% over 1977 while United States sales of \$516,547,000 were up 19%.

Sales of individual annuities where payments commence at some future date are measured by the maturity value of these products. Sales increased 136% in 1978 to \$443,898,000 with a strong surge in new business in the United States more than offsetting a decline in Canada. Canadian results accounted for \$102,464,000, down 26% from 1977, while the United States recorded sales of \$341,434,000, up 574%.

Single premiums received for annuities where payments commence immediately totalled \$29,801,000, up 59% from the previous year.

<i>Individual Products</i>	<i>Canada (000's)</i>	<i>U.S.A. (000's)</i>	<i>Total (000's)</i>
Life Insurance . .	\$1,162,221	\$ 516,547	\$1,678,768
Annuities	102,464	341,434	443,898
	<u>\$1,264,685</u>	<u>\$ 857,981</u>	<u>\$2,122,666</u>
Health Insurance (annualized premiums). . .	\$ 3,950	\$ 647	\$ 4,597

Group Products

Continued growth in the sales of the Company's group products reflected the growing opportunities in the market for employee benefit plans.

Group life insurance sales increased 32% over 1977 to \$4,238,424,000 with Canadian sales of \$1,889,164,000 up 19% and United States sales up 44% to a record \$2,349,260,000.

Group annuity sales maintained the strong growth pattern of recent years and, at \$1,763,514,000, recorded an increase of 27% over 1977. Canadian sales were up 21% at \$636,056,000 and United States sales increased 30% to reach \$1,127,458,000.

Group health insurance sales measured in terms of new annualized premium income continued to grow and registered an increase of 26%, to total \$99,745,000. New business in Canada accounted for \$34,596,000 and in the United States, \$65,149,000 up 28% and 26% respectively.

<i>Group Products</i>	<i>Canada (000's)</i>	<i>U.S.A. (000's)</i>	<i>Total (000's)</i>
Life Insurance . .	\$1,889,164	\$2,349,260	\$4,238,424
Annuities.	636,056	1,127,458	1,763,514
	<u>\$2,525,220</u>	<u>\$3,476,718</u>	<u>\$6,001,938</u>
Health Insurance (annualized premiums). . . .	\$ 34,596	\$ 65,149	\$ 99,745

Business in Force

Life insurance and annuity business in force increased 16% to \$47,200,029,000. Health insurance in force, in terms of gross annual premiums, increased \$45,289,000 over the previous year and totalled \$369,014,000 at December 31.

<i>Individual Products</i>	<i>Canada (000's)</i>	<i>U.S.A. (000's)</i>	<i>Total (000's)</i>
Life Insurance . .	\$5,039,466	\$2,997,670	\$8,037,136
Annuities.	563,476	435,751	999,227
	<u>\$5,602,942</u>	<u>\$3,433,421</u>	<u>\$9,036,363</u>
Health Insurance (annualized premiums). . . .	\$ 8,849	\$ 3,179	\$ 12,028

<i>Group Products</i>	<i>Canada (000's)</i>	<i>U.S.A. (000's)</i>	<i>Total (000's)</i>
Life Insurance . .	\$19,387,498	\$10,966,360	\$30,353,858
Annuities.	5,381,879	2,427,929	7,809,808
	<u>\$24,769,377</u>	<u>\$13,394,289</u>	<u>\$38,163,666</u>
Health Insurance (annualized premiums). . . .	\$ 142,641	\$ 214,345	\$ 356,986

Income

Premium income for 1978 increased \$259,916,000 over 1977 to \$1,015,949,000 up 34%. Of this total, \$351,096,000 represented premium income from new business, up 77% from the previous year with the balance representing premiums paid on policies issued in prior years.

<i>Individual Products</i>	<i>Source of 1978 Premium Income</i>		
	<i>First Year (000's)</i>	<i>Single (000's)</i>	<i>Renewal (000's)</i>
Life Insurance . .	\$ 17,863	\$ 12,575	\$ 108,310
Annuities.	3,543	193,444	18,367
Health Insurance	4,175		7,330
Total Premiums	<u>\$ 25,581</u>	<u>\$ 206,019</u>	<u>\$ 134,007</u>

<i>Group Products</i>	<i>First Year (000's)</i>	<i>Single (000's)</i>	<i>Renewal (000's)</i>
Life Insurance . .	\$ 8,573	\$ 2,656	\$ 97,799
Annuities.	36,269	24,116	157,376
Health Insurance	47,882		275,671
Total Premiums	<u>\$ 92,724</u>	<u>\$ 26,772</u>	<u>\$ 530,846</u>

Net investment income increased to \$268,500,000, up 21% over 1977. The net rate of return on the Company's total assets was 8.41%.

Total funds available for investment including repayment of principal on investments of previous years increased substantially over 1977 and amounted to \$722,000,000. Mortgage investments continued to account for the largest allocation of investible funds followed by bonds, real estate and common stocks. The rate of interest on bond and mortgage investments made in 1978 was 10.73% in Canada and 9.43% in the United States.

Realized and unrealized capital gains on segregated investment funds were \$5,848,000 in 1978, compared with \$1,744,000 in the previous year. Such capital gains and losses are credited or charged to these funds and do not affect net income of the Company. The gain is offset by an increase of the same amount in the increase in policy reserves noted under Benefits and Expenses.

The Great-West Life Assurance Company

Benefits and Expenses

The largest part of the Company's income is paid out or credited to policyholders and their beneficiaries and totalled \$1,099,773,000 in 1978. Direct payments were \$635,840,000 an increase of 16% over 1977. They included death benefits on life insurance claims, pension income for annuitants, funds to assist in the costs of hospital care, dental bills and other needs, replacement of income lost through disabling illnesses or accidents and dividends on participating plans. As well, an addition of \$463,932,000 was made to the policy reserves held to provide for future payments to policyholders.

Mortality experience for individual policies was less favorable than both the previous year and long-term expectations. Mortality experience for group policies, however, improved over 1977 and remained at a favorable level. The ratio of claims to premiums in the health insurance line of business improved significantly over that recorded a year ago.

Commissions increased 31% while operating expenses, at \$77,583,000, were up 18% over the previous year. However, the Company's ratio of expenses to income declined.

Net Income

In the participating policyholders' account, net income from operations before policyholder dividends was \$47,205,000 up 19% over the previous year, with an increase in investment income a significant factor in the improved result. Of this amount, \$37,116,000 was appropriated for policyholder dividends, up 18% over 1977, and \$12,315,000, including extraordinary items totalling \$2,226,000, was carried forward to the participating policyholders surplus account.

Net income from operations attributable to shareholders amounted to \$33,841,000 representing \$16.92 per share compared with \$14.66 in 1977, an increase of 15%. Continuing strong investment earnings, and an improved result in the United States group health insurance line of business contributed to this result. Including extraordinary items totalling \$3,433,000, net income to shareholders was \$18.63 per share compared with \$15.94 the previous year.

Assets and Liabilities

Assets increased \$590,360,000 to \$3,690,422,000, a growth of 19%.

Liabilities, consisting primarily of funds set aside to meet future obligations to policyholders, amounted to \$3,245,222,000. Special reserves were \$94,818,000 while capital and unappropriated surplus increased \$36,656,000 to \$350,383,000, representing 10.8% of liabilities.

Summary of Operations

For the year ended December 31

	1978	1977 (note 7)
INCOME		
Life insurance and annuity premiums.	\$ 680,890,615	\$464,453,741
Accident and health premiums.	335,058,627	291,578,884
Investment income.	268,500,299	222,023,163
Net realized and unrealized capital gains on assets of segregated investment funds.	5,848,201	1,744,202
	<u>1,290,297,742</u>	<u>979,799,990</u>
BENEFITS AND EXPENSES		
Life and annuity benefits.	296,233,818	249,397,456
Accident and health benefits.	287,712,485	257,518,515
Interest on funds on deposit.	14,778,828	11,920,303
Increase in policy reserves (note 2g).	463,931,940	272,116,445
Dividends to policyholders.	37,115,421	31,493,636
Total paid or credited to policyholders.	<u>1,099,772,492</u>	<u>822,446,355</u>
Commissions.	36,976,653	28,168,022
Operating expenses.	77,582,896	65,726,173
Premium taxes.	13,935,144	11,038,645
	<u>1,228,267,185</u>	<u>927,379,195</u>
Net operating income before income taxes.	62,030,557	52,420,795
Income taxes (note 2e).	18,100,000	14,997,000
Net income from operations.	<u>43,930,557</u>	<u>37,423,795</u>
Extraordinary items		
Realized gains/losses on sales of assets (note 3).	3,073,537	2,612,400
Prior years' income tax adjustment.	2,216,782	457,787
Share of earnings of subsidiaries (note 2f).	368,833	277,254
Net income.	<u>\$ 49,589,709</u>	<u>\$ 40,771,236</u>
SUMMARY OF NET INCOME (note 2h)		
ATTRIBUTABLE TO PARTICIPATING POLICYHOLDERS		
Net income before policyholder dividends.	\$ 47,204,963	\$ 39,590,587
Policyholder dividends.	<u>37,115,421</u>	<u>31,493,636</u>
Net income from operations.	10,089,542	8,096,951
Extraordinary items.	2,225,513	791,962
Net income—participating policyholders.	<u>\$ 12,315,055</u>	<u>\$ 8,888,913</u>
ATTRIBUTABLE TO SHAREHOLDERS		
Net income from operations.	\$ 33,841,015	\$ 29,326,844
Extraordinary items.	<u>3,433,639</u>	<u>2,555,479</u>
Net income—shareholders.	<u>\$ 37,274,654</u>	<u>\$ 31,882,323</u>
Earnings per share		
From operations.	\$ 16.92	\$ 14.66
Including extraordinary items.	\$ 18.63	\$ 15.94

The Great-West Life Assurance Company
Balance Sheet
As at December 31

ASSETS	1978	1977 (note 7)
BONDS (note 2a)	\$ 934,889,372	\$ 809,564,946
STOCKS (note 2b)	317,015,712	252,501,618
MORTGAGES AND SALE AGREEMENTS (note 2a)	1,412,549,812	1,209,932,042
REAL ESTATE (note 2c)	275,177,974	219,074,134
LOANS TO POLICYHOLDERS	189,921,241	180,816,310
CASH AND CERTIFICATES OF DEPOSIT	27,370,689	10,066,837
PREMIUMS IN COURSE OF COLLECTION	67,949,264	48,931,595
INTEREST DUE AND ACCRUED	37,013,302	31,359,000
SEGREGATED INVESTMENT FUNDS (note 2d)	383,716,638	293,970,424
OTHER ASSETS	44,818,385	43,845,032
	<u>\$3,690,422,389</u>	<u>\$3,100,061,938</u>

J.W. BURNS, Chairman of the Board and Chief Executive Officer

K.P. KAVANAGH, President

LIABILITIES	1978	1977 (note 7)
POLICY RESERVES (note 2g)	\$2,353,188,319	\$1,979,165,293
POLICYHOLDERS' FUNDS.	192,338,716	161,387,806
PROVISION FOR 1979 POLICYHOLDERS' DIVIDENDS.	36,802,000	31,721,612
PROVISION FOR EXPERIENCE RATING REFUNDS.	36,803,000	26,119,000
PROVISION FOR CLAIMS.	186,218,066	159,323,979
SEGREGATED INVESTMENT FUNDS.	383,716,638	293,970,424
OTHER LIABILITIES.	56,155,126	45,923,009
	3,245,221,865	2,697,611,123
 SPECIAL RESERVES APPROPRIATED FROM SURPLUS (note 4).	 94,817,988	 88,724,241
 CAPITAL STOCK		
Authorized, issued and fully paid—		
2,000,000 common shares of \$1 par value.	2,000,000	2,000,000
 UNAPPROPRIATED SURPLUS		
Participating policyholders.	108,764,376	94,851,221
Shareholders.	239,618,160	216,875,353
	348,382,536	311,726,574
	\$3,690,422,389	\$3,100,061,938

The Great-West Life Assurance Company
Statement of Unappropriated Surplus
For the year ended December 31, 1978

	<i>Participating Policyholders</i>	<i>Shareholders</i>	<i>Total</i>
Adjusted opening balance January 1 (<i>note 1</i>).....	\$ 94,851,221	\$216,875,353	\$311,726,574
Add:			
Total net income for year from summary of operations.	12,315,055	37,274,654	49,589,709
Deduct:			
Dividends to shareholders.....		6,840,000	6,840,000
Changes in special reserves appropriated from surplus			
Investment valuation and currency reserve—net.	(2,990,309)	(3,355,486)	(6,345,795)
Reserve for cash value deficiencies and amounts of negative reserves.	583,219	6,051,334	6,634,553
Reserve for miscellaneous assets.....	808,990	4,995,999	5,804,989
Balance December 31.	<u>\$108,764,376</u>	<u>\$239,618,160</u>	<u>\$348,382,536</u>

Notes to Financial Statements

December 31, 1978

Note 1. Accounting basis change

In 1978, amendments to the Canadian and British Insurance Companies Act came into effect which changed the basis of accounting for life insurance companies operating in Canada. Following is a brief description of these changes:

- a. the book values of invested assets under the new basis are essentially amortized cost for bonds and mortgages, depreciated cost for real estate and adjusted cost for stocks (adjusted for market gains and losses as described below). Formerly these assets were carried at written-down values;
- b. realized and unrealized gains and losses between cost and market value of the life branch stock portfolio are taken into account over a period of years in the determination of earnings rather than being recorded in the surplus account when realized;
- c. realized gains and losses on the disposal of life branch debt securities (bonds and mortgages) formerly reported in surplus in the year of disposal are amortized into earnings over the period remaining between disposal date and maturity;
- d. policy reserves are now calculated using interest and mortality assumptions which more closely reflect current conditions. This results in generally lower reserves than those produced by the assumptions used under the former basis;
- e. certain expenses of acquiring new business formerly charged to income in the year of acquisition are spread over a period of years;
- f. certain miscellaneous assets, which were previously written off as acquired, are now charged to earnings over varying periods of time, using more conventional accounting principles;
- g. income taxes charged against operations are calculated using the deferred-tax accounting method, compared with the former taxes-payable method;
- h. surplus appropriations are required by regulation to provide reserves for investment valuation, the excess of cash values over actuarial reserves and certain miscellaneous assets.

Conversion to the new basis, at January 1, resulted in adjustments to surplus as described in the following schedule.

Schedule of Adjustments at January 1, 1978

	<i>Participating Policyholders</i>	<i>Shareholders</i>	<i>Total</i>
Balances December 31, 1977			
Contingency Reserve.....	\$ 16,000,000	\$ 54,000,000	\$ 70,000,000
Surplus—Shareholders’ Account.		1,603,492	1,603,492
—Unassigned.....	28,589,450	82,345,998	110,935,448
	44,589,450	137,949,490	182,538,940
Policy reserves (<i>notes 1d and 1e</i>).....	44,942,788	90,265,328	135,208,116
Investment revaluation (<i>note 1a</i>).....	31,790,512	25,066,025	56,856,537
Recognition of assets previously expensed as acquired (<i>note 1f</i>)	8,531,750	22,423,639	30,955,389
Adoption of deferred method of income tax recognition (<i>note 1g</i>)	(3,016,163)	(2,092,004)	(5,108,167)
	126,838,337	273,612,478	400,450,815
Special reserve appropriations (<i>note 1h</i>)			
Investment valuation and currency reserve—net.....	8,090,864	9,443,405	17,534,269
Reserve for cash value deficiencies and amounts of negative reserves.....	15,353,923	24,857,200	40,211,123
Reserve for miscellaneous assets.....	8,542,329	22,436,520	30,978,849
Unappropriated Surplus as adjusted at January 1, 1978.....	\$ 94,851,221	\$216,875,353	\$311,726,574

The Great-West Life Assurance Company

Notes to Financial Statements

December 31, 1978

Note 2. Significant Accounting Practices

The accounting practices followed by the Company are as prescribed or permitted by the Department of Insurance of Canada for the purpose of reporting to policyholders and shareholders.

- a. Investments in bonds, debentures and mortgages (debt securities) are basically carried at amortized cost with the securities of the life account adjusted by the unamortized balance of losses or gains on sales of securities. The difference between the proceeds on the sale of a debt security and its amortized cost is considered to be an adjustment of future portfolio yield, and is deferred and amortized over the period to maturity of the security sold.
- b. Investments in stocks (equity securities) in the life account are carried at cost plus an adjustment which consists of realized gains and losses as well as a market value adjustment which is a portion of the difference between adjusted book value and year-end market value of all equity securities. The adjustment at December 31, 1978 amounted to \$2,562,207. Equity investments in respect of the accident and health business are carried at cost.
- c. Real estate held for investment is carried at cost of \$527,497,866 less accumulated depreciation of \$165,093,326 and mortgage liabilities of \$87,226,566.
- d. Investments held for segregated investment funds are carried at market value.
- e. Income taxes are calculated using the deferred-tax method. The balance of deferred income taxes included in other liabilities at December 31, 1978 was \$8,910,167.
- f. Income from subsidiaries is included in these statements under the equity method of accounting.
- g. Policy reserves represent the amount required, together with future premiums and investment income, to provide for future benefits, administrative expenses and unamortized acquisition expenses on insurance and annuity policies. Policy reserves are calculated using assumptions appropriate to the policies in force and recognize the deferral of certain costs of acquiring policies. The amount of unamortized deferred acquisition costs deducted in arriving at the policy reserves was \$61,486,577 at December 31, 1978.
- h. Net income includes earnings of the participating, non-participating and health insurance accounts. Earnings applicable to shareholders include net earnings of the non-participating and the health accounts and 2½%, as restricted by law, of the distributions from the participating account.

Note 3. Realized gains (losses) on sales of assets shown as an extraordinary item in net income include the results of:

- (i) all disposals of assets of the accident and health account;
- (ii) disposals of real estate in the life account; and
- (iii) gains due to foreign exchange transactions.

Note 4. The special reserves appropriated from surplus are a requirement of the Department of Insurance of Canada. At December 31, the components were as follows:

	1978	1977
Participating account		
Investment valuation and currency reserve—net.	\$ 5,100,555	\$ 8,090,864
Reserve for cash value deficiencies and amounts of negative reserves.	15,937,142	15,353,923
Reserve for miscellaneous assets.	9,351,319	8,542,329
	<u>\$30,389,016</u>	<u>\$31,987,116</u>
Non-participating and health accounts		
Investment valuation and currency reserve—net.	\$ 6,087,919	\$ 9,443,405
Reserve for cash value deficiencies and amounts of negative reserves.	30,908,534	24,857,200
Reserve for miscellaneous assets.	27,432,519	22,436,520
	<u>\$64,428,972</u>	<u>\$56,737,125</u>

Note 5. Transactions in United States currency are recorded dollar for dollar with Canadian. Conversion to Canadian dollars of the excess of United States dollar assets over United States dollar liabilities at the rate of exchange prevailing at December 31, 1978 would have produced an increase in net assets of approximately \$28,700,000. In accordance with reporting requirements, the life branch portion which amounted to \$23,000,000 is reflected in the balance sheet by a reduction in the investment valuation reserve shown in note 4 and an increase in unappropriated surplus.

Note 6. With respect to its Canadian operations, the Company was subject to and has complied with the Federal Anti-Inflation Act controls on prices, profit margins, compensation to employees and dividends to shareholders.

Note 7. Comparative figures for 1977 have been restated to recognize the basis change outlined in note 1.

Valuation Actuary's Certificate

To the Policyholders, Shareholders, and Directors of
The Great-West Life Assurance Company

The Policy Reserves and Segregated Investment Funds shown in the Balance Sheet at December 31, 1978 have been determined in accordance with the provisions of the Canadian and British Insurance Companies Act. In my opinion: (i) these amounts make proper provision for all unmatured obligations guaranteed under the terms of the Company's policies in-force; and (ii) a proper charge against total net income on account of these liabilities has been made in the Summary of Operations for the year 1978.

J.O. PARSONAGE, F.S.A., F.C.I.A., M.A.A.A.
Vice-President and Actuary

February 1, 1979

Auditors' Report

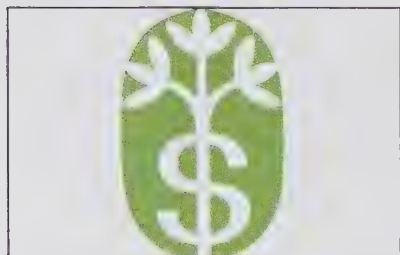
To the Policyholders, Shareholders and Directors of
The Great-West Life Assurance Company

We have examined the balance sheets of The Great-West Life Assurance Company as at December 31, 1978 and 1977, the related summaries of operations for the years 1978 and 1977 and the statement of unappropriated surplus for the year 1978. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1978 and as restated as at December 31, 1977 and the results of its operations for the year 1978 and for the year 1977 as restated, in accordance with the accounting practices described in note 2 to the financial statements consistently applied.

PRICE WATERHOUSE & CO.
Chartered Accountants

Winnipeg, Manitoba, February 2, 1979



Condensed Report of the Directors to Shareholders

The Company continued to progress in its affairs in 1978. Net operating income was \$7,039,000 or \$2.73 per share. The comparative figure for 1977 was \$2.22.

Revenue and Expense

Revenue for the year rose by \$15,559,000 of which \$6,464,000 accrued from additional fee and commission income and \$9,095,000 from increased interest and dividends. Real estate commissions accounted for \$4,204,000 of the fee and commission increase. Profit ratios for services as measured under Anti-Inflation Board regulations had fallen sufficiently to allow some increase in fee scales in the latter part of the year. Higher interest and dividends earned arose from increased assets and rising interest rates as the year progressed.

Expense for the year was higher by \$14,174,000. Of this, interest paid on deposits increased by \$7,723,000 with sharply rising rates in the last half of the year a factor. The policy of emphasizing five year mortgage loans financed by five year deposits first initiated in 1971 has now placed the Company in the position of having a substantial portion of its assets and liabilities immune to short term changes in interest rates.

Salaries increased by 9.1% mainly due to higher salary scales. The increase in real estate commissions paid is proportionate to the increase in commissions earned. Premises and equipment costs and other operating expense increases are attributable to inflationary price increases and volume usage.

Income before taxes increased by \$1,385,000. Having regard for the increase in non-taxable dividend income there was but a minor increase of \$55,000 in provision for income taxes.

Balance Sheet

Assets crossed the billion dollar level with an increase of \$69,501,000 to \$1,026,718,000. The increase of \$67,000,000 in the mortgage portfolio was below expectations due to a record high level of loan prepayments which had the effect of partially neutralizing the level of new lending.

Guaranteed trust accounts increased by \$64,636,000 with deposits up by \$5,009,000 and term certificates by \$59,627,000. Of the term certificate increase, \$40,029,000 represented increased amounts outstanding of certificates issued for an original term of five years.

At year end shareholders' equity was \$20.55 compared with \$18.81 one year earlier.

Dividends

The regular quarterly dividend of 15 cents per share was increased, for the third and fourth quarters, to 20 cents. In December the Directors declared an extra dividend of 30 cents payable on December 29. Total dividends paid per share amounted to \$1.00, an increase of 14 cents over the prior year.

Outlook

Canada's economic performance again was below par in 1978 and the Company estimates that real growth will measure not more than 3½% when all data are recorded. Prospects for 1979 similarly are uninspiring and few sectors promise better than indifferent results. Sluggish business conditions should prevail throughout most of 1979 with overall expansion measuring less than 3% and little likelihood of a significant lift until late in the year.

With the expiry of the controls program, in 1979 Canada is operating in a setting determined primarily by market forces for the first time in three years.

While the short-term outlook is not favourable, the Company is encouraged in the belief that by the end of 1979 and into 1980 improvement will be evident. Incorporated in this view is an expectation that interest rate trends will be more favourable and that key areas of the domestic economy, including the consumer and business sectors, will be expressing greater optimism. During the past year a number of events have occurred which take the form of public rejection of heavy taxation and excessive government encroachment in the mixed economy. Government has been responsive and while the acclaimed renaissance of free enterprise may be overstating the immediate realities, it is nonetheless apparent the message has been heard.

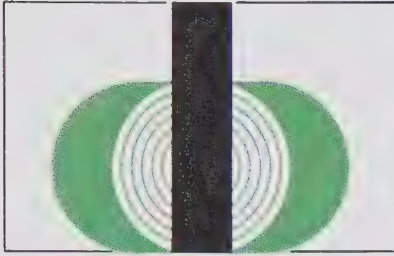
Condensed Financial Statements

Condensed Income Statement

	1978	1977
Interest from mortgages.	\$ 68,071,000	\$ 62,478,000
Fees and commissions.	29,323,000	27,063,000
Real estate commissions.	20,153,000	15,949,000
Other interest, dividends and other income.	27,334,000	23,832,000
	<u>144,881,000</u>	<u>129,322,000</u>
Interest paid.	77,578,000	69,855,000
Operating and other expenses.	57,168,000	50,717,000
Income taxes.	3,096,000	3,041,000
	<u>137,842,000</u>	<u>123,613,000</u>
Net operating income.	\$ 7,039,000	\$ 5,709,000
Earnings per share.	\$ 2.73	\$ 2.22
Dividends declared per share.	\$ 1.00	\$ 0.86
Investors' share of earnings.	\$ 3,548,000	\$ 2,881,000
Book value of Investors' investment in Montreal Trust—year-end.	\$ 35,012,000	\$ 32,740,000

Condensed Balance Sheet

Cash, bank deposits and secured loans.	\$ 70,440,000	\$115,965,000
Securities.	193,547,000	151,451,000
Mortgages and other investments.	735,423,000	665,541,000
Premises and equipment.	14,316,000	14,177,000
Other assets.	12,992,000	10,083,000
Total Assets.	<u>\$1,026,718,000</u>	<u>\$957,217,000</u>
Guaranteed Trust Accounts		
Deposits.	\$ 253,858,000	\$248,849,000
Investment certificates.	701,090,000	641,463,000
	<u>954,948,000</u>	<u>890,312,000</u>
Other liabilities.	18,738,000	18,424,000
Shareholders' equity.	53,032,000	48,481,000
Total Liabilities.	<u>\$1,026,718,000</u>	<u>\$957,217,000</u>



Condensed Report of the Directors to Shareholders

Operating Results

The year 1978 was one of outstanding performance by the Corporation's two business Groups, Pulp and Paper, and Packaging. Higher volumes of newsprint shipments and a lower-valued Canadian dollar led the way to higher earnings and to sales revenue that passed the \$1 billion level for the first time, albeit in 1978's inflationary dollars.

Net sales were \$1,079 million in 1978, compared with \$869 million in 1977, an increase of \$210 million, or 24%. Earnings before extraordinary items in 1978 were \$59 million compared with \$21 million in 1977. Earnings per common share, before extraordinary items, were \$2.60 compared with \$0.90 in the preceding year.

The \$38 million increase in earnings was attributable to improvements in both business Groups. In Pulp and Paper, in addition to the strong newsprint results, pulp sales and earnings improved late in the year and other product areas were better than anticipated. In Packaging, Domglas results contributed substantially and performance improved in the Bag and Container divisions and in Europa Carton's paperboard and packaging operations.

In any evaluation of the Corporation's 1978 performance, it should be emphasized that benefits from exchange increased in absolute and relative terms. In other words, using parity of the Canadian dollar with the U.S. dollar, approximately 44% of earnings before extraordinary items represented a benefit from exchange on sales in U.S. funds. In 1977, that ratio was about 41%. On the other side of the exchange coin, the increase in potential exchange charges on the German term bank loan, resulting from the increase during the year in the value of the Deutsche mark, had an adverse effect on earnings.

Dividends

As a reflection of improved earnings and cash flow, the quarterly dividend on common shares was increased by 20% in the final quarter of 1978 to an annual rate of \$0.80 per share. This was the first increase above the dividend level originally established in 1956. An extra dividend of \$0.05 per common share was declared in October and paid in December.

Corporate Development

Late in 1978, the Corporation was authorized by the shareholders to continue under the Canada Business Corporations Act, the Class A and Class B common shares were split three for one, the number of authorized preferred shares was increased to 6,000,000, and the name of the Corporation was changed to Consolidated-Bathurst Inc.

Labour Relations

In employee relations, two-year labour agreements were signed in 1978 with production employees of six of the Pulp and Paper Groups' seven primary mills. Negotiations are continuing at the seventh mill, at Bathurst, N.B., which produces corrugating medium and unbleached kraft pulp.

Capital Expenditures

Capital expenditures are planned to increase to \$75 million in 1979, which is comparable with \$48 million spent in 1978. Management believes it important to the Corporation's competitive position that modernization and rationalization of production facilities be pressed forward.

Outlook

The outlook for the Corporation in 1979 is for continued improvement in sales and earnings. A generally predicted downturn in the North American economy late in the year is not expected to affect 1979 results significantly. A substantial backlog of orders for newsprint and stronger demand for market pulp permit a positive outlook for the year. The economy in Europe, especially in West Germany, is improving and the Canadian pulp and paper industry should continue to benefit from exchange on the lower-valued Canadian dollar.

Condensed Financial Statements

Condensed Income Statement

	1978	1977
Net sales.	\$1,078,843,000	\$868,865,000
Other income.	8,617,000	3,356,000
	<u>1,087,460,000</u>	<u>872,221,000</u>
Cost of goods sold, including depreciation.	881,852,000	748,920,000
Administrative and selling expenses.	72,474,000	57,172,000
Interest and provision for exchange charges.	37,370,000	34,333,000
Income taxes.	36,350,000	10,038,000
Minority interest.	267,000	403,000
	<u>1,028,313,000</u>	<u>850,866,000</u>
Earnings before extraordinary items.	<u>\$ 59,147,000</u>	<u>\$ 21,355,000</u>
Earnings per common share.	<u>\$ 2.60</u>	<u>\$ 0.90</u>
Dividends per common share.	<u>\$ 0.75</u>	<u>\$ 0.67</u>
Power Corporation's share of earnings.	<u>\$ 21,617,000</u>	<u>\$ 7,510,000</u>
Book value of Power's investment in Consolidated-Bathurst—year-end.	<u>\$ 146,419,000</u>	<u>\$130,456,000</u>

Condensed Balance Sheet

Current assets.	\$ 422,229,000	\$377,950,000
Property and plant—net.	392,112,000	393,342,000
Investments and other assets.	58,603,000	37,499,000
Total Assets.	<u>\$ 872,944,000</u>	<u>\$808,791,000</u>
Current liabilities.	\$ 159,088,000	\$168,717,000
Long-term debt.	228,231,000	245,647,000
Deferred income taxes and provisions.	150,349,000	121,642,000
Minority interest and preferred equity.	49,111,000	32,041,000
Common shareholders' equity.	286,165,000	240,744,000
Total Liabilities.	<u>\$ 872,944,000</u>	<u>\$808,791,000</u>

Power Corporation's investment in the field of newspapers is represented by an income debenture of Gesca Ltée, which owns the companies publishing La Presse, Le Nouvelliste, La Tribune and La Voix de l'Est. This debenture effectively provides that all the earnings and any realized changes in the incremental value of the equity of Gesca Ltée accrue to the debenture holder.

The consolidated loss of Gesca was \$3.3 million for 1978 compared with earnings of \$0.8 million in 1977. This loss was primarily due to the strike which closed down the operations of La Presse Ltée and Montréal-Matin Inc. from October 1977 to April 1978, and the losses incurred by Montréal-Matin upon its return to publication.

The operations of Montréal-Matin ceased in December 1978 when it became clear that it would not be able to recover its position in the market lost during the lengthy strike. All costs related to this closing were accounted for in 1978.

Gesca's performance should return to normal in 1979. Three-year labor contracts at all newspapers were negotiated on satisfactory terms in 1978. La Presse has been recovering its market position steadily since its return to publication and, together with improved cost controls, a return to normal profitability should occur. Les Journaux Trans-Canada continue to perform satisfactorily.

Wabanex Energy Corporation Ltd. (in which Power Corporation has a 57% interest) holds rights in the abandoned Wabana mine on Bell Island, Newfoundland, from the Province of Newfoundland, for the purposes of converting the mine for oil storage and transshipment.

In response to a formal request for proposal from the United States Department of Energy, Wabanex submitted a technical proposal for the turnkey development of storage space for the Strategic Petroleum Reserve Office in January 1979. Wabanex expects to submit a price proposal under this request following a competitive evaluation of its submission by the Department of Energy. It is anticipated that the Department will select sites for an additional 350 million barrels of storage for the Strategic Petroleum Reserve by the fall of 1979. If selected, Wabanex proposes to develop and operate its storage capacity of 92 million barrels on a long-term lease basis to the United States Government.

Power Corporation of Canada, Limited

Board of Directors

**WILBROD BHERER, C.M., Q.C.	<i>Advocate</i>
*JAMES W. BURNS	<i>President of the Company</i>
**ALFREDO F. CAMPO	<i>Company Director</i>
*PETER D. CURRY	<i>Deputy Chairman of the Company</i>
*PAUL DESMARAIS, O.C.	<i>Chairman and Chief Executive Officer of the Company</i>
WILLIAM M. FULLER	<i>Partner, Wm. & A. P. Fuller</i>
PIERRE GENEST, Q.C.	<i>Partner, Cassels, Brock</i>
JEAN-PAUL GIGNAC	<i>President, Sidbec-Dosco Limited</i>
*ROLAND GIROUX, C.C.	<i>Company Director</i>
PIERRE HAAS	<i>President, Paribas International</i>
ROBERT H. JONES	<i>President and Chief Executive Officer, The Investors Group</i>
*ARTHUR F. KNOWLES, C.A.	<i>Vice-President, Finance and Treasurer of the Company</i>
PAUL E. MARTIN	<i>President and Chief Executive Officer, Canada Steamship Lines (1975) Limited</i>
*W. EARLE McLAUGHLIN	<i>Chairman of the Board, The Royal Bank of Canada</i>
PIERRE MOUSSA	<i>President, Banque de Paris et des Pays-Bas</i>
PAUL BRITTON PAINE, Q.C.	<i>Chairman and President, Montreal Trust Company</i>
CLAUDE PRATTE, Q.C.	<i>Partner, Létourneau & Stein</i>
**THE HON. JOHN P. ROBERTS, P.C., C.C., Q.C.	<i>Partner, Stikeman, Elliott, Robarts & Bowman</i>
*ROBERT C. SCRIVENER	<i>Chairman and Chief Executive Officer, Northern Telecom Limited</i>
CLIFF G. SIMPSON	<i>President and Chief Executive Officer, Laurentide Financial Corporation Ltd.</i>
PETER N. THOMSON	<i>Chairman, TIW Industries Ltd.</i>
*WILLIAM I. M. TURNER, JR.	<i>President and Chief Executive Officer, Consolidated-Bathurst Inc.</i>

Officers

PAUL DESMARAIS, O.C.	<i>Chairman and Chief Executive Officer</i>
PETER D. CURRY	<i>Deputy Chairman</i>
JAMES W. BURNS	<i>President</i>
ARTHUR F. KNOWLES, C.A.	<i>Vice-President, Finance and Treasurer</i>
PAUL E. MARTIN	<i>Vice-President</i>
CLAUDE BRUNEAU	<i>Vice-President</i>
JOHN A. RAE	<i>Vice-President</i>
DANIEL JOHNSON	<i>Vice-President and Secretary</i>
ANDRÉ GERVAIS, C.G.A.	<i>Assistant Treasurer and Assistant Secretary</i>
PAUL MORIMANNO, C.A.	<i>Assistant Treasurer</i>

*Members of the Executive Committee

**Members of the Audit Committee

Power Corporation of Canada, Limited

Head Office	759 Victoria Square, Montreal, Quebec, H2Y 2K4
Transfer Agent and Registrar	Montreal Trust Company, Montreal, Toronto, Calgary, Vancouver
Stock Listings	
Common Shares	Montreal, Toronto and Vancouver Stock Exchanges
PP Shares	Montreal Stock Exchange
Second Preferred Shares	Montreal and Toronto Stock Exchanges
First Preferred Shares	Montreal and Toronto Stock Exchanges

Si vous préférez recevoir le rapport de Power Corporation en français, veuillez vous adresser au Secrétaire, Power Corporation of Canada, Limited, 759 Square Victoria, Montréal, Québec, H2Y 2K4

Principal Subsidiary and Affiliated Companies

Canada Steamship Lines (1975) Limited
Montreal, Quebec

Voyageur Enterprises Limited
Montreal, Quebec

Kingsway Transports Limited
Dorval, Quebec

Canadian Shipbuilding & Engineering Limited
Collingwood, Ontario

The Investors Group
Winnipeg, Manitoba

The Great-West Life Assurance Company
Winnipeg, Manitoba

Montreal Trust Company
Montreal, Quebec

Consolidated-Bathurst Inc.
Montreal, Quebec



To the Shareholders

The consolidated earnings before extraordinary items of Power Corporation of Canada, Limited for the three months ended June 30, 1978 amounted to \$10,105,000, compared with \$9,591,000 for the three months ended June 30, 1977. These consolidated earnings, after providing for dividends on non-participating preferred shares, are equivalent to 77 cents as against 72 cents per participating preferred and common share for the same period last year. Gross revenue from operations was \$75,197,000, compared with \$86,187,000 in the second quarter last year. Earnings from operations were \$8,906,000, compared with \$10,934,000 for the same period in 1977, while the Company's share of earnings of unconsolidated subsidiaries and affiliated companies was \$8,808,000, compared with \$6,089,000 last year. After allowing for the extraordinary gain of \$585,000 in the second quarter, compared to a loss of \$3,206,000 last year, the earnings are equivalent to 81 cents per participating preferred and common share as against 46 cents in 1977.

For the six months ended June 30, 1978, the consolidated earnings before extraordinary items were \$11,628,000, compared with \$10,136,000 for the six months ended June 30, 1977. These consolidated earnings, after providing for dividends on non-participating preferred shares, are equivalent to 85 cents as against 69 cents per participating preferred and common share for the comparable prior year period.

Gross revenue from operations was \$109,070,000 in 1978, compared with \$117,620,000 in 1977.

Earnings from operations were \$8,343,000, compared with \$11,265,000 for the first six months of last year.

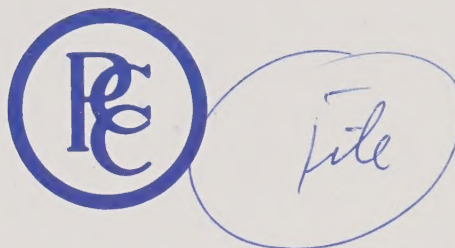
The share of earnings of the Company's unconsolidated subsidiaries and affiliated companies was \$11,740,000 this year, compared with \$7,439,000 in 1977. After allowing for an extraordinary credit of \$585,000, compared to charges of \$4,884,000 for the first half of 1977, the earnings are equivalent to 89 cents per participating preferred and common share, as against 29 cents last year.

The Board of Directors today declared the regular quarterly dividends on the first and second cumulative preferred shares. Dividends of 15 cents per share on the 6% participating preferred shares, on the Class A common shares, and on the Class B common shares were also declared in respect of the quarter ending September 30, 1978, and will be payable September 29, 1978 to shareholders of record as at the close of business on September 15, 1978.

On behalf of the Board

Paul Desmarais
Chairman and Chief Executive Officer

Montreal, August 16, 1978.



Power Corporation of Canada, Limited

**Interim Report
June 30th, 1978**

Power Corporation of Canada, Limited

Statement of Consolidated Earnings

(Unaudited)

		Thousands For the six months ended June 30	
		1978	1977
Gross revenue from operations		\$109,070	\$117,620
Earnings from operations		\$ 8,343	\$ 11,265
Share of earnings of subsidiary and affiliated companies		11,740	7,439
Income from investments		2,124	2,403
		<u>22,207</u>	<u>21,107</u>
Interest on long-term debt		5,759	4,466
Provision for depreciation		5,246	5,287
Provision for income taxes		(426)	1,218
		<u>10,579</u>	<u>10,971</u>
Earnings before extraordinary items		11,628	10,136
Extraordinary items		585	(4,884)
Net earnings		<u>\$ 12,213</u>	<u>\$ 5,252</u>
Earnings per 6% participating preferred and common share			
Before extraordinary items		\$ 0.85	\$ 0.68
After extraordinary items		\$ 0.89	\$ 0.29

Statement of Changes in Consolidated Financial Position

(Unaudited)

		Thousands For the six months ended June 30	
		1978	1977
Source of Funds			
From operations			
Earnings before extraordinary items		\$ 11,628	\$ 10,136
Non cash charges (credits)			
Provision for depreciation		5,246	5,287
Deferred income taxes		(732)	302
Earnings not received in cash		(7,009)	(2,547)
		<u>9,083</u>	<u>12,778</u>
Issue of long-term debt		162,800	
Decrease in advances to trustees of share purchase plans		3,297	
Disposal of fixed assets		2,157	965
Disposal of investments		1,545	14,567
		<u>178,882</u>	<u>28,310</u>
Use of Funds			
Redemption of preferred shares series A		39,001	
Additions to fixed assets		644	15,093
Reduction of long-term debt		12,175	6,876
Dividends - preferred shares 1965 series		542	562
- preferred shares series A		294	1,066
- participating preferred shares		417	417
- common shares		3,342	3,198
Purchase of investments		114,324	2,722
Miscellaneous		2,079	993
		<u>172,818</u>	<u>31,028</u>
Increase (Decrease) in Working Capital		<u>\$ 6,064</u>	<u>\$ (2,728)</u>